

**Statement of the
Rural Telephone Finance Cooperative
Before the Rural Utilities Service
Public Meeting on Rural Broadband Access
June 27, 2002**

Good afternoon. My name is Henry Buchanan. I am Vice President of Industry Affairs for the Rural Telephone Finance Cooperative (RTFC). RTFC is a privately funded, not-for-profit member-owned financing cooperative that serves the rural telecommunications industry. With over 500 members, RTFC has loans outstanding of approximately \$5 billion. Eligibility for the cooperative is open to RUS-eligible rural telephone companies and cooperatives and their affiliated organizations.

RTFC is affiliated with, and obtains its funding through, the National Rural Utilities Cooperative Finance Corporation (CFC). CFC has a membership of over 1000 rural electric cooperatives and has provided financing to those members for over 30 years. Combined with RTFC, CFC has approximately \$20 billion in assets.

As NTCA and OPASTCO have previously noted, rural local exchange carriers (LECs) are doing an admirable job of extending high-speed or broadband services to their customers. As NECA has found through its recent surveys, approximately 65 % of rural lines will be capable of providing broadband service by the end of this year. Most rural LECs have used RUS or RTB funding to finance the necessary infrastructure. This is simply another chapter in the 50+-year success story of the public-private partnership that is the RUS telephone program.

Unfortunately most rural residents are not served by independent rural telephone companies and cooperatives. The majority receives service from large regional carriers that have no economic incentive to invest in their rural infrastructure. Certainly not the investment required to provide broadband services.

As a company that is active in the private capital markets, RTFC can perhaps provide some insight into how broadband investment is presently viewed. All sectors of the telecom industry are experiencing a lack of liquidity in the private capital markets. Wireline telecommunications providers, with generally stable and sufficient revenue flows, enjoy the most access. Broadband investment however is not viewed very favorably. Given the high cost of providing the infrastructure and the limited acceptance of the broadband services by customers, the business case is very difficult to make. Lenders provide funding with the expectation of being repaid. Rating agencies exercise discipline on lenders that secure capital in the marketplace.

The combination of high initial cost and limited initial "take rates" argues strongly for the low-cost funding that is provided for in the RUS Broadband Program authorized in the Farm Security and Investment Act of 2002. RTFC recommends the following in order for the program to emulate the success of the RUS and RTB loan programs:

1. RUS should advocate that changes in the legislation be made in order to prevent exclusion of rural LECs from participation. The provision of the statute, which excludes rural LECs whose territories fall within a Metropolitan Statistical Area, should be changed.
2. RUS should not lend to applicants seeking to provide broadband services in the service territories of rural LECs. Prudent lending practices will dictate that RUS not fund competition to an existing borrower. However, RUS should also recognize the job that non-RUS borrower LECs have done in providing broadband access to their customers and refrain from financing competitors to these LECs also.
3. RUS should continue to recognize the great social good that it has accomplished through rural telephone companies and cooperatives. This partnership with the private sector has brought unprecedented investment in rural areas. Government-

owned telecommunications enterprises in competition with private sector providers are not in keeping with RUS's successful history.

4. A technology-neutral approach is the best approach. In rural areas where the incumbent regional LEC will not make the investment to provide higher bandwidth services, technologies such as satellite or terrestrial wireless may be key to getting service to the people.

RTFC has worked successfully in the past to provide supplemental and complementary financing for RUS-borrower rural telephone companies and cooperatives. We anticipate that this role will continue and look forward to working with RUS in the future.